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TO RUEHC/SECSTATE WASHDC 8707  
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RUEHCD/AMCONSUL CIUDAD JUAREZ 0229  
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RUCPDOC/DEPT OF COMMERCE WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 02 LAGOS 000238

SIPDIS

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DEPARTMENT FOR AF/W (SILSKI) AND AF/EPS (POTASH)  
DEPARTMENT PASS TO USTR (AGAMA)  
ACCRA PLEASE PASS TO WEST AFRICA TRADE HUB  
DOE FOR CAROLYN GAY

E.O. 12958: N/A

TAGS: ETRD EFIN ECON NI

SUBJECT: NIGERIA EFFECTS TARIFF CHANGES

REF: A. 05 ABUJA 1133

¶B. ABUJA 122

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¶11. Summary: Changes to the Government of Nigeria (GON)'s tariff schedule took effect February 28. The GON extended the Economic Community of West African States (ECOWAS) Common External Tariff (CET) to many items, reduced tariff rates on most goods, and raised rates on others. Lining fabrics, specialized shoes and certain furniture parts were removed from the list of prohibited imports. Woven or laminated sacks and bags made from polymers of ethylene and other plastics were added to the prohibited list. End summary.

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New Tariffs Take Effect March 1  
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¶12. In a November 28, 2006 circular from the Federal Ministry of Finance (MF) titled "Addendum to the Review of the Common External Tariff (CET)", Nigeria adopted new tariffs. The Federal Executive Council (FEC) allowed a grace period of 90 days, ending on February 28, 2007 within which importers who had entered into irrevocable trade agreements before November 28 could clear their goods. In July 2006, the FEC approved the commencement of the Common External Tariff (CET) which took effect in August 2006. The ECOWAS CET, which the Obasanjo administration had originally planned to implement by July 2005, has 0, 5, 10 and 20% tariff "bands". Nigeria has added its own 50% tariff band.

¶13. Although the CET generally reduced Nigeria's import tariffs, duties on some items increased. Items such as tomato paste in retail packs, which previously had a 40% tariff, now carries a 50% tariff. Duties rose on other products, including ceramic tiles from 35% to 50%, complete R.20 batteries from 40% to 50%, twine and ropes not exceeding 52mm from 30% to 50% and wire of non-alloy steel not exceeding 0.26mm from 25% to 50% plus a 10% levy on Cost of Insurance and Freight (CIF).

¶14. However, the review resulted in significant reductions in duties for products like dry powder paints from 45% to 10%, rubber tires used on buses and trucks from 45% to 10%, aluminum cans from 35% to 5%, denatured ethanol from 30% to 5% and adhesives based on polymers from 30% to 5%. Polyester staple fiber and fiber cement used for roofing and ceiling were reduced from 25% to 5%. Pharmaceutical and health related products such as test kits for HIV and malaria, insecticide treated mosquito nets and insecticide kits had tariffs

reduced to zero.

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Import Prohibition List  
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¶ 15. The GON removed some items from the import prohibition list. Lining fabrics, in rolls of man-made staple filaments or fibers were removed from the list, as well as specialized shoes used in hospitals, factories and fire fighting. Made-up fishing nets, mosquito nets and other netting fabrics were removed for a one-year period from July 2006 to July 2007. Certain furniture components were removed from the prohibition list because they currently are not produced in Nigeria. These include: veneer chair skeleton/shell, arm guide, headrest support, back frame and seat frame. Others are injection molded memory, based sled (metal and plastic), height adjustment device and control mechanism units. These items were removed from the list for 18 months subject to a 5% import duty.

¶ 16. Woven or laminated sacks and bags made of polymers of ethylene were added to the list of prohibited items. These and other sacks and bags made of plastics, of the kind used for packaging, are now banned due to excess local capacity, according to the November 28 circular. (COMMENT: In 2004, President Obasanjo promised to rescind all import bans by January 2007, in line with the conclusion of negotiations with other West African countries under the ECOWAS CET. However, the CET negotiations are continuing and unlikely to conclude before 2008. (See REF B) END COMMENT.)

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Other Measures  
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¶ 17. The MF exempted motorcycles and bicycles imported in completely knocked down (CKD) forms from Value Added Tax (VAT). The MF claimed this was done to make motorcycles and bicycles more affordable to

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the people. However, the MF declared bicycle rims may be imported only by members of the Bicycle Manufacturers' Association of Nigeria upon payment of 50% duty, to encourage local bicycle rim production.

The concession will continue for one year. Semi-finished dry cell batteries will carry a duty of 20% for the next 18 months as compared with finished batteries which carry a 50% duty, to spur revival of the Nigerian dry cell batteries industry. The new policy allows pharmaceutical manufacturers to import printed aluminum foils at 5% duty, while other importers pay 50%. The duty on finished steel wire rods previously 25% was raised to 50% plus a 10% levy to protect domestic steel production and expand domestic production capacities.

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CET Implementation Negatively Impacts Manufacturers  
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¶ 18. The Manufacturers' Association of Nigeria (MAN) claims the adoption of the ECOWAS CET hurts local manufacturers. According to the Director General of MAN, Jide Mike, the disadvantages of the CET far outweigh the advantages. Many members can't compete with imports given lower duty rates on certain goods. Often the effect has been to raise duties on some intermediate goods that are imported inputs for manufacturers while lowering duties on finished goods, imposing on manufacturers a heavier duty burden than under the previous fiscal regime with less protection for their final products.

¶ 19. Mike underscored that the country's borders are so porous that prohibited and high tariff goods enter at little or no cost. He decried the implementation of the ECOWAS Trade Liberalization Scheme (TLS), which has encouraged the influx of goods from West African countries where overhead costs are lower than in Nigeria. He said MAN has made several representations to the GON, to explain that Nigerian manufacturers cannot compete under the ECOWAS TLS and CET programs. These presentations have been largely ignored, he said.

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Comment  
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¶10. Nigeria's previous trade regime provided actually the highest rate of effective protection in the world. It was arbitrary, unpredictable, and a source for serious corruption. Overall, the partial implementation of the CET has reduced protection levels and brought much greater transparency and predictability to a significant part of trade regulations. In the medium-to-long term, the ability to make business decisions based on clear, predictable tariffs should benefit most companies.

¶11. Nonetheless, a considerable portion of the trade regime remains arbitrary, with imports either banned or burdened with tariffs at a non-CET 50% rate. Not surprisingly, the items that have not benefited from a tariff change are ones with significant trade impact. In the shorter term, the CET regime will create some hardship for Nigerian manufacturers, most of whom had been accustomed to significant protection against competing imports. Given Nigeria's severe infrastructure problems, local manufacturing is seldom competitive without government help in tilting the playing field to favor the local manufacturers. The remaining high tariffs and trade bans are meant to provide that tilt. However, the tilt also often hampers business as much as helps it, not to mention the large-scale smuggling produced by these arbitrary regimes. End comment.

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